

Message Text

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PAGE 01 CAIRO 03648 011714Z
ACTION ABF-01

INFO OCT-01 NEA-10 ISO-00 FS-01 AID-05 EB-08 SS-15 SP-02
OMB-01 /044 W
-----020255 094383 /70
R 011556Z MAR 77
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 2277
INFO US DEPARTMENT TREASURY

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E.O. 11652: N/A
TAGS: AFIN, EFIN, PFOR
SUBJECT: TRANSFER OF EGYPTIAN POUNDS

REF: (A) SATE 042675 (B) 76 CAIRO 17377

1. REFTEL
REQUESTS INFORMATION OF A TECHNICAL NATURE CONCERNING
DIVISION OF EGYPTIAN POUND DEPOSITS FROM USDO CHECK BETWEEN
THE THREE BANKS IN EGYPT HAVING AMERICAN PARTICIPATION. THIS
QUESTION IS BEING ANSWERED IN SEPTTEL.
2. OF GREATER CONCERN IS SENTENCE IN PARA 2 TO EFFECT
TREASURY IS CONSIDERING POSSIBILITY OF PLACING ALL USG HOLDINGS
OF EXCESS CURRENCY IN THESE BANKS. WE STRONGLY RECOMMEND
AGAINST SUCH A COURSE OF ACTION.
3. IT HAS ONLY BEEN WITH CONSIDERABLE DIFFICULTY THAT WE HAVE
BEEN ABLE TO MOVE THE RELATIVELY SMALL AMOUNTS (LE 10 MILLION
EACH) OF USG-OWNED LOCAL CURRENCY TO THE EXISTING U.S.-EGYPTIAN
BANKS. AS THE DEPARTMENT IS AWARE, THESE FUNDS ARE ESSENTIALLY
FROZEN, AND THEREFORE DO NOT ADD TO THE OPERATIONAL CAPABILITIES
I.E., LENDING CAPACITY, OF THE BANKS, NOR DO THEY BENEFIT
EXCEPT TO A SMALL DEGREE IN TERMS OF INTEREST EARNED (LESS
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THAN ONE-HALF OF ONE PERCENT, AND THE DANKS HAVE LESS THAN
50 PERCENT U.S. PARTICIPATION). AT THE SAME TIME, THE USG
DOES NOT EARN INTEREST AT ANY BETTER RATE THAN THAT PAID BY THE
PURELY EGYPTIAN BANKS HOLDING THE REMAINING DEPOSITS. THUS
THE NET GAIN TO THE U.S.-EGYPTIAN BANKS AND THE AMERICAN
GOVERNMENT IS OF MINIMAL NATURE.

4. AN EFFORT ON OUR PART TO SHIFT A SIGNIFICANT PORTION OF THE DEPOSITS STILL HELD BY EGYPTIAN BANKS TO THE BANKS WITH AMERICAN PARTICIPATION WOULD BE VIEWED WITH CONSIDERABLE CONCERN BY THE GOE'S ECONOMIC AND FINANCIAL SECTORS. THE MAGNITUDE OF THE AMOUNTS INVOLVED, IN EXCESS OF \$250 MILLION EQUIVALENT, WOULD BE ONE OF THE FACTORS INVOLVED, SINCE IT WOULD CAUSE A MAJOR DISLOCATION OF THE BANKING SECTOR. AT THE SAME TIME, FROM A PURELY POLITICAL VIEWPOINT, AN ACTION OF THIS NATURE COMING AT A CRITICAL PERIOD WHEN THE SADAT REGIME IS TRYING DESPERATELY TO GET ITS ECONOMIC HOUSE IN ORDER (AND WITH OUR ASSISTANCE) WOULD HARDLY BE RECEIVED AS HELPFUL.

5. WE WISH TO MAXIMIZE THE BENEFITS ACCRUING TO THE U.S. AND U.S. COMPANIES FROM OUR EXCESS CURRENCY HOLDINGS. THIS IS ALSO THE INTENT OF THE STATUTE MENTIONED IN REFTEL, WHICH DIRECTS TREASURY TO GIVE PREFERENCE TO AMERICAN FINANCIAL INSTITUTIONS IN THE PLACEMENT OF USG FUNDS IN FOREIGN COUNTRIES. (REF B, WHICH ASKED FOR CLARIFICATION OF POSSIBLE DIFFERENCE BETWEEN "USG DEPOSITARY" AND "AMERICAN FINANCIAL INSTITUTION" HAS NOT BEEN ANSWERED.) SINCE NEITHER THE FINANCIAL NOR THE POLITICAL INTERESTS OF THE USG WOULD BE SERVED BY THE PROPOSED SHIFT, AND THE ADDITIONAL BENEFITS TO THE BANKS ARE MINIMAL, WE AGAIN URGE THAT THE PROPOSAL BE DROPPED FOR THE PRESENT AND FORSEEABLE FUTURE.
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